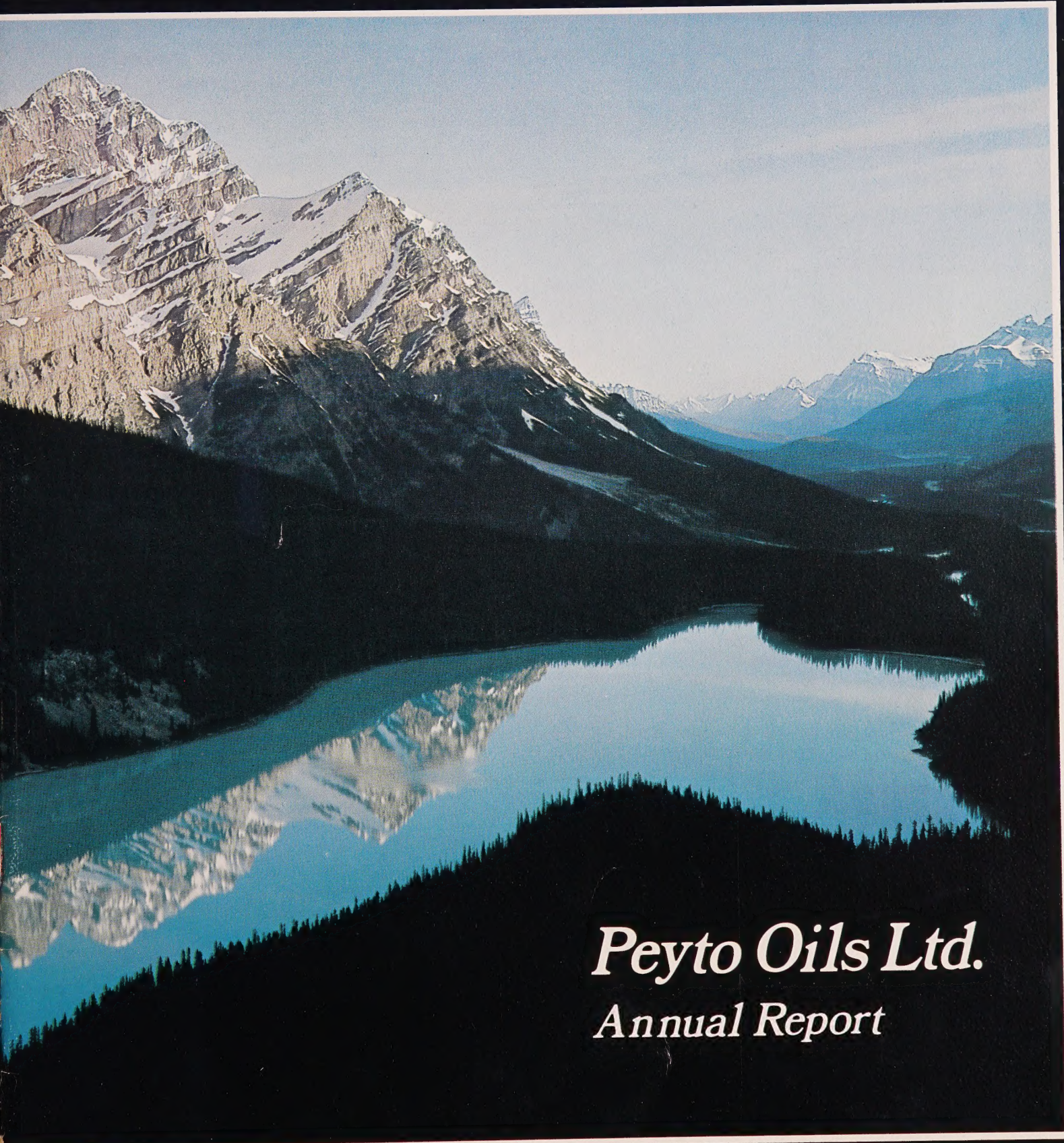


YEAR ENDING MAY 31st, 1976



Peyto Oils Ltd.
Annual Report

Peyto Oils Ltd. and Subsidiaries

Peyto Explorations Inc.	100%
Polaris Oil Limited	100%
Peyto Oils (U.K.) Ltd.	100%
Giant Reef Petroleum Limited	82%
Not included in consolidation:	
Enjay Holdings Limited	(40%)
Incorporated	
Alberta May 19, 1966	

HEAD OFFICE:

335 Examiner Bldg.
CALGARY, Alberta T2P 1W3
Area Code 403 261-5042

OFFICERS:

R. T. VANDERHAM — President
K. D. MOORE — Vice President
A. N. McCRUDEN — Secretary
J. E. MORRISH — Assistant Secretary

DIRECTORS:

CARMEN W. BYLER
A. N. McCRUDEN
JEAN Le REUN
R. T. VANDERHAM
W. WOLODARSKY

BANKERS:

BANK OF MONTREAL
604 - 8th Ave. S.W.
CALGARY, Alberta T2P 1G4

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
411 - 8th Ave. S.W.
CALGARY, Alberta T2P 1E7
15 King St. West
TORONTO, Ontario M5H 1B4

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.
2500, 700 - 2nd Street S.W.
CALGARY, Alberta T2P 2W2

STOCK LISTING:

TORONTO STOCK EXCHANGE

OUR COVER:

"PEYTO LAKE" — located 27 miles north of Lake Louise on the Banff-Jasper Highway in Banff National Park. The pale blue color of the lake is a result of the silt carried in the outwash of Peyto Glacier. ALBERTA, Canada.

GLOSSARY

- Barrel of oil** —
the standard measure of crude oil volume being 35 Imperial gallons or 42 U.S. gallons.
- Commercial discovery** —
a test well from which petroleum substances may be produced in sufficient quantities to justify completing the test well for the taking of production.
- Development drilling** —
additional wells drilled following a discovery for the purpose of delineating the areal extent of the new field or pool.
- Dry and abandoned** —
a drilled well which has no economic value.
- Exploratory drilling (or wildcat)** —
drilling for oil or gas in an area or at a subsurface depth previously unexplored.
- Farmout** —
an agreement whereby a company earns an interest in mineral rights held by another company by the carrying out of certain exploration work usually involving a test well.
- Geological and geophysical structure** —
a fold, fault or other deformation of the earth's crust.
- Lease (acreage, Production Licence, Prospecting Licence, Concession)** —
rights granted covering specific geographic areas by owner for the exploration and production of petroleum and natural gas, or other minerals.
- Liquids — L.P.G.'s** —
Liquified Petroleum gases, as distinguished from crude oil, contained in some natural gas usually requiring a processing plant to separate from natural gas.
- MCF** —
a volumetric measure containing one thousand cubic feet of natural gas.
- Sour gas** —
natural gas containing hydrogen sulphide (H₂S) highly toxic and requiring processing before sale.
- Seismic — seismograph survey** —
a technique used to determine the configuration of subsurface geological structures.
- Ton of sulphur** —
actually a long ton or 2,204 lbs.
- Wellhead price** —
the price paid to the producer by the buyer of crude oil or natural gas exclusive of all transportation charges.

Five Year Financial & Operating Review

	1976	1975	1974	1973	1972
Total Revenue	\$2,472,000	\$1,271,000	\$ 672,000	\$ 581,000	\$ 564,000
Cash Flow	\$1,405,000	800,000	204,000	90,000	204,000
Cash Flow/Share	50c	28c	7c	4c	10c
Depreciation/Depletion	479,000	246,000	226,000	159,000	164,000
Net Income (loss)	474,000	183,000	(292,000)	(249,000)	(35,000)
Net Income (loss)/share	17c	6c	(10c)	(11c)	(2c)
Total Assets	13,000,000	7,002,000	6,437,000	4,751,000	3,224,000
Working Capital	1,089,000	2,364,000	2,449,432	634,362	384,000
Long-term Debt	5,830,000	370,000	604,000	632,000	629,000
Shares Outstanding	2,833,583	2,831,383	2,831,383	2,431,383	1,953,293
Shareholder's Equity	6,205,000	5,726,000	5,543,000	3,622,000	2,277,000
Toronto Stock Exchange					
Share Volume*		1,206,795	2,559,131	2,682,900	1,378,000
Value		\$4,421,874	\$17,398,833		
Gross wells drilled	20	13	20	23	14
Oil/Gas	11	9	10	11	5
Dry and Abandoned	9	4	10	12	9
Number of Employees ...	5	4	5	5	4
Proven Oil & Condensate ...	3,945,682				
Probable Oil & Condensate .	2,574,853				
Total in Barrels	6,520,537				
Proven Gas	42,330**				
Probable Gas	11,201				
Total in MMcf	53,531				
Proven Sulphur	93,305				
Probable Sulphur	56,905				
Total in Tons	150,210				

* Calendar Year

** not inclusive of 32,000 MMcf attributable to the revenues allocated to Turner Valley Gas Plant from which 15¢/Mcf is collected when processed.

Quirk Creek 5-22-21-4W5M
"Deep Sheet" Discovery Well



Dear Shareholder:

Sharp increases in natural gas prices in Alberta coupled with increasing volumes of production and new acquisitions produced higher earnings and cash flow for the year ending May 31, 1976.

Revenues from oil and gas sales after royalties reached \$2,271,000, while net earnings increased to \$474,000 or 17 cents per share.

The company's long term indebtedness increased to \$5.8 million due to the purchase of producing properties located in the Turner Valley oil and gas field.

During the year an additional 16% of the outstanding shares of Giant Reef Petroleum Limited was purchased for cash, increasing the company's interest in Giant Reef to 82%.

On page 1 of this report we have published for the first time our reserve estimates as of May 31, 1976. The reserves were calculated by McDaniel Consultants (1965) Ltd., and will be subject to annual revisions caused by the production of the reserves, future performance of the oil and gas fields, and new additions when discovered or acquired. Recently discovered North Sea reserves were not included in the estimate.

Alberta

The political and business climate has improved for the oil and gas producing industry during the year and we are cautiously optimistic that governments at all levels have come to realize that the country's ambitious social goals can only be attained when the productivity of the nation is maintained and increased. Government involvement in our industry remains the number one detriment to development. Business decisions too often are made for tax reasons and artificial incentives rather than to increase reserves and profitability. Inflation, high interest rates and the lack of clearly defined government energy policies are further obstacles to an orderly development of the oil and gas industry.

In Saskatchewan the company's non-producing leases have been allowed to lapse. The excessive royalties and mineral taxes in that Province make new exploration unprofitable. Furthermore, the current excessive taxation will lead to early abandonment of producing fields, causing the loss of producible secondary reserves. Secondary reserves are those which can only be produced through extraordinary techniques such as waterfloods, steam injection, miscible floods, etc., which are only economic if the producer is allowed a rate of return to afford the heavy capital investment required to effect such techniques.

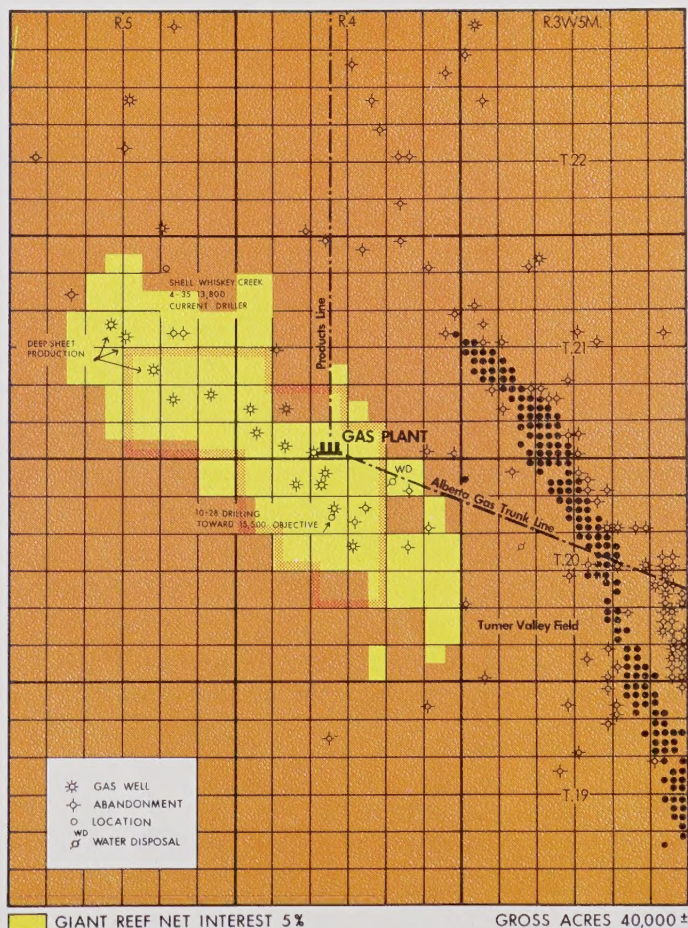
Recently threatened expropriation of the properties of other mineral producers also is a strong deterrent to exploration in Saskatchewan.

EXPLORATION AND DEVELOPMENT Western Canada

QUIRK CREEK (see map No. 1)

During the year two development wells were completed in the deep Mississippian thrust sheet at 11,500 feet. The discovery well drilled in 1973 finally went on production in July. Construction of a high pressure gathering line and modification of the Quirk Creek sour gas plant were necessary prior to producing this gas which has a higher hydrogen sulphide content than the gas from the shallower Mississippian zone for which the gas plant was originally designed. In addition two wells were completed in the shallower Mississippian zone to increase the deliverability from the field. Altogether the owners of the field invested approximately \$8.7 million for development of the field during the year. It is expected that due to the availability of the deep gas the plant will be used to its full design capacity during the coming year.

MAP No. 1



QUIRK CREEK

One exploratory deep test is currently drilling to test the potential of the deeper Mississippian and Devonian structure beneath the southern part of the field. This well Husky et al Quirk Creek 10-28-20-4-W5 is expected to bottom at 15,500 feet in the Devonian system and is expected to cost \$2.6 million. Your company's 82% subsidiary, Giant Reef Petroleum Limited, owns a 5% working interest in the well and field.

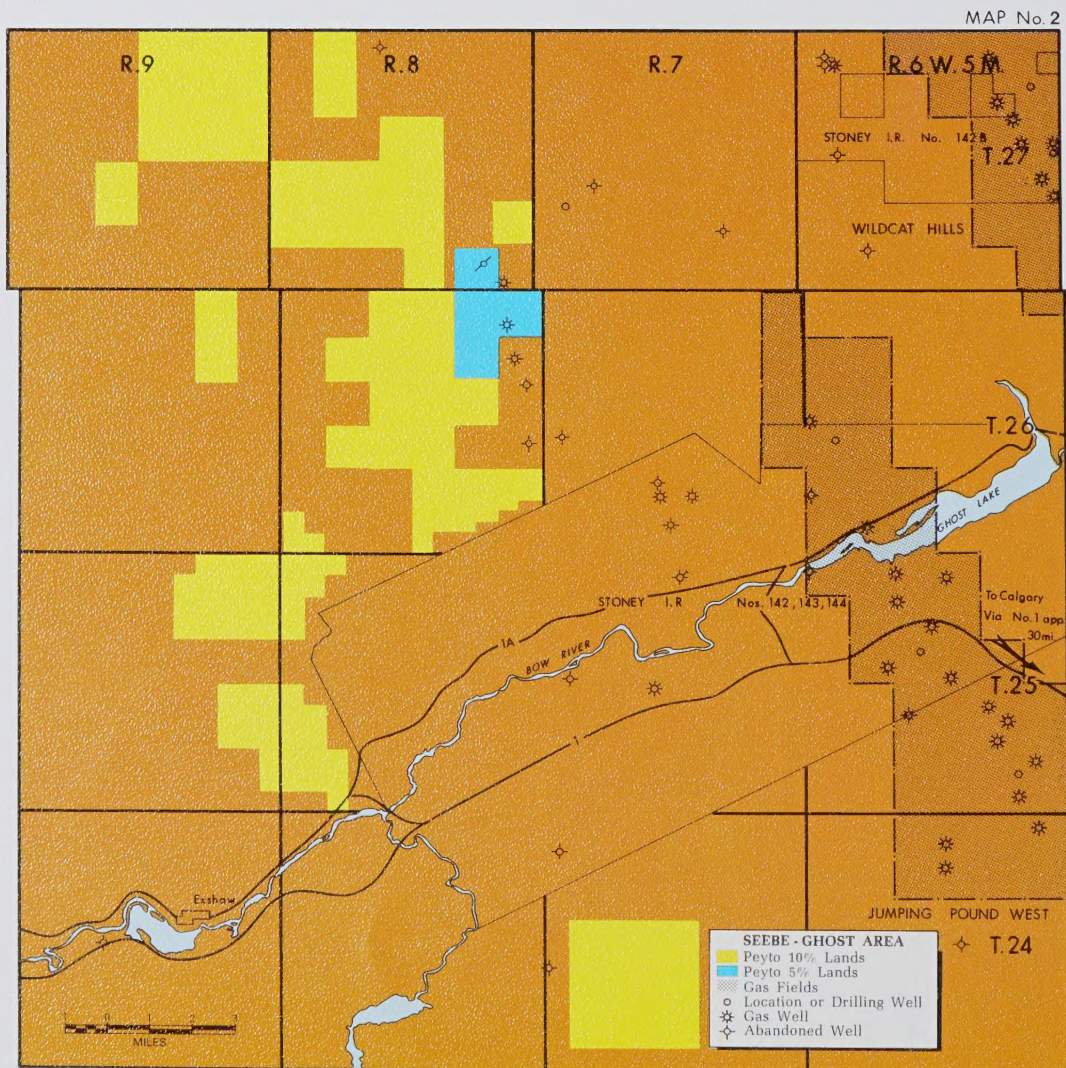
TURNER VALLEY

Effective November 1, 1975 your company purchased for cash varying interests in certain producing oil and gas properties in the Turner Valley oil and gas field of Alberta. The producing field covers approximately 16,700 acres.

These properties contain 234 producing oil and gas wells, the production of which is unitized. Peyto's share of the production is approximately 420 barrels of oil per day and 2 MMcf of natural gas. Included in the purchase is a 33 1/3% interest in Madison Natural Gas Company Ltd. and a natural gas processing plant known as the Decalta plant. Peyto receives substantial revenues from these facilities and also contributes to their capital and operating costs.

LACOMBE

On part of the company's 20,000 acre spread of leases, two Viking Zone gaswells have been completed and a 6 million cubic feet per day (6 MMcf/d) natural gas processing plant is under



construction. Start up date is October 1. Peyto owns 18½% in the plant and the production.

LONG COULEE

Your company is participating in the construction of a 30 MMcf/day gas plant in which our share will be ± 1 MMcf/d. Cost of the plant is \$4.5 million and the company's share of the gas will be produced from 4,000 acres of leases on which two prolific gaswells have been completed. On production date for the plant is May 1977.

SEEBE-GHOST (see map No. 2)

Studies to select a suitable plant site to process the previously discovered reserves are con-

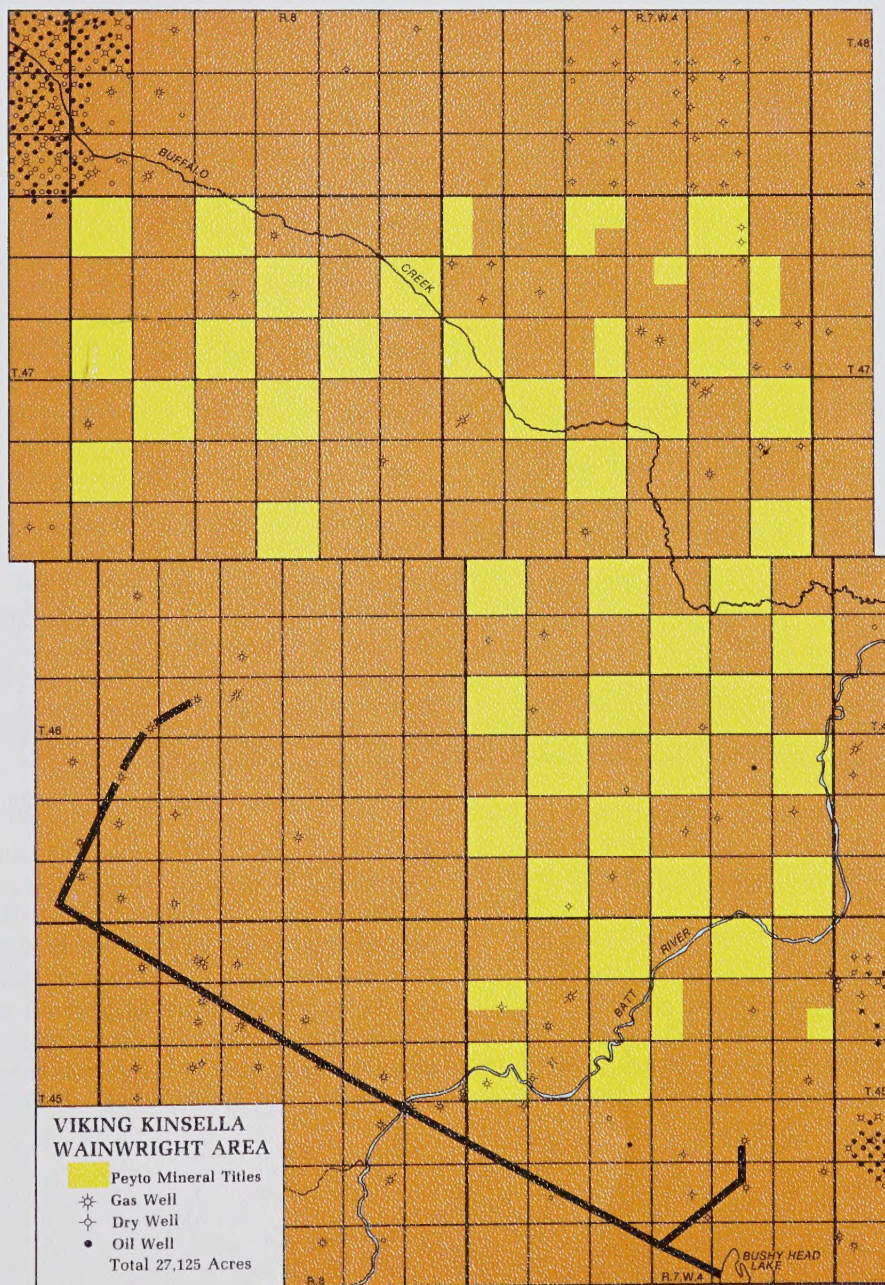
tinuing. Difficulties are being encountered from an environmental point of view in this ecologically sensitive area.

Drilling by others is continuing in an attempt to increase reserves for this proposed plant.

VIKING KINSELLA — WAINWRIGHT (see Map No. 3)

The company owns 27,125 acres of mineral titles which are leased out to others. Peyto retains a 5% royalty and an annual rental. The area is being extensively explored by others which has resulted in the completion of several oil and gas discoveries.

MAP No. 3



By virtue of the terms of our lease we expect the lessee to commence an extensive drilling program in the coming year. As many as 20 wells may be drilled on this acreage at no cost to Peyto.

NEPTUNE

The gas plant in which your company has a 25.89% interest commenced production in December 1975, at a maximum rate of 7 MMcf/d. During this summer the plant has been largely shut in due to lack of markets. Hopefully production will recommence this autumn. Fortunately the existing gas sales contract contains a "pay or take" clause which will result in a certain minimum level of income for the contract year.

MISCELLANEOUS

Smaller additions to reserves were made through completions of 3 gaswells at Bruce, 1 gaswell at Rochester, 1 gaswell at Fenn West, 1 gaswell at Worsley, all in Alberta, and 1 gaswell at Clarke Lake in British Columbia. The company holds varying interests in the above wells.

Of the 9 dry holes in which the company had an interest four were drilled by others at no cost to the company.

The company intends to increase its exploration activities primarily in Alberta due to its more favorable economic and political climate. Negotiations to acquire non-equity funds to finance an expanded exploration program are currently in progress.

FOREIGN EXPLORATION

United Kingdom (see centerfold map) Block 3/7

The company's first foreign offshore discovery was made in 1976 on the company's offshore block 3/7 in the North Sea. Well 3/7/1 flowed oil at the rate of 3,100 barrels of oil per day.

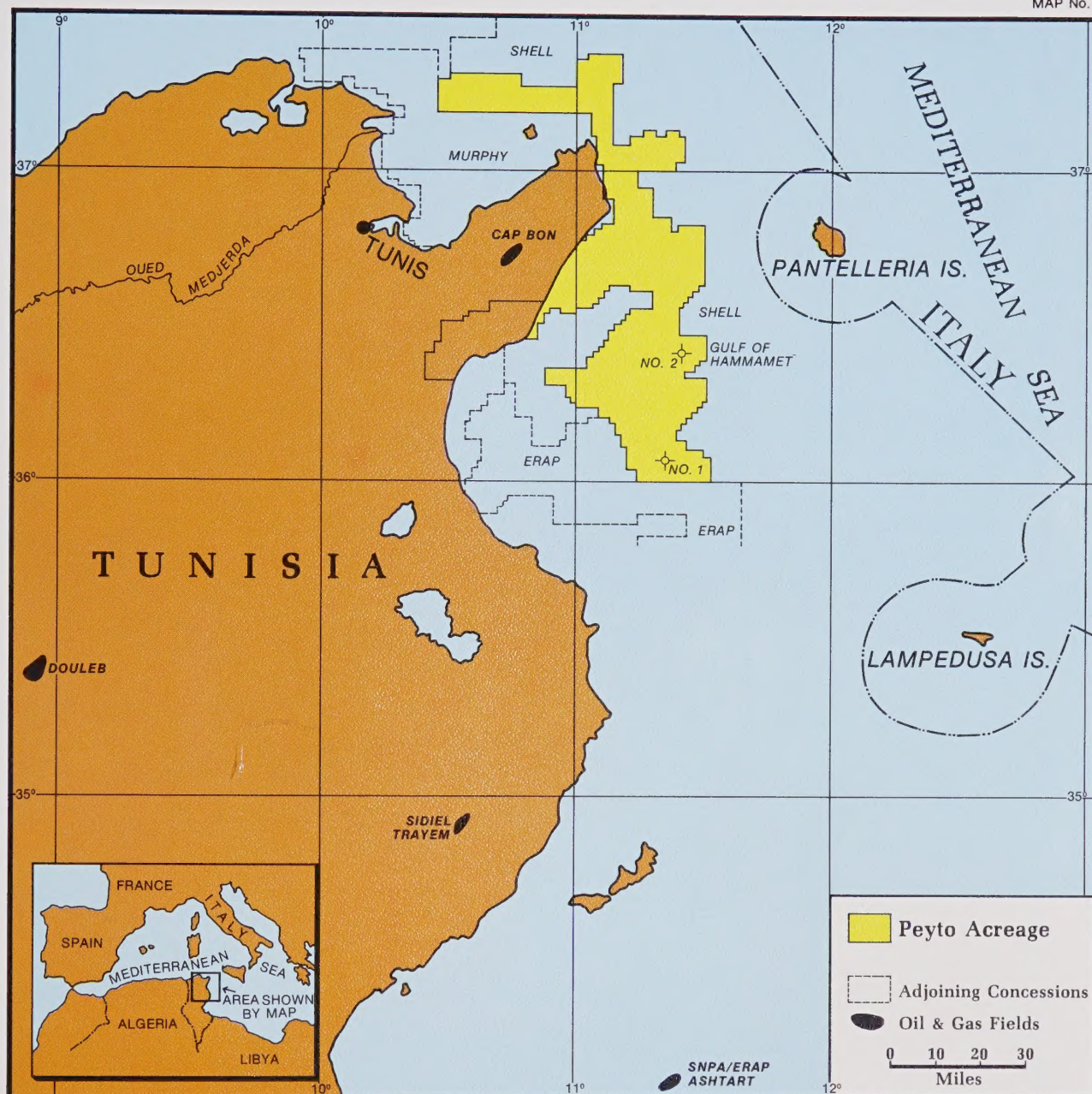
Through a farmout agreement with Chevron Standard, that company committed to drill two testwells on the block at no financial cost to the company and upon the establishment of commercial production Chevron agreed to finance the development of such production. The company through its wholly owned U.K. incorporated subsidiary, Peyto Oils (U.K.) Ltd., originally had a 10% interest in block 3/7. After completion of the farmout Peyto's interest will be 1.5% during payout of Chevron's development costs and 3.5% thereafter.

Following the drilling of two earning testwells by Chevron, the second of which is presently drilling, there are other exploration targets on block 3/7 and it is likely that at least one further wildcat well will be drilled. Such a well, if drilled, will require the company's financial participation up to 3.5%. A wildcat well on this block now costs between \$6 and \$8 million. Again should a wildcat prove productive the financing of the development of a discovery would be the responsibility of Chevron on the above stated terms.

The current driller 3/7/2 is of much greater significance than the initial 3/7/1 well. It is testing a substantial fault block running north-south on the western flank of the Ninian field. Should this well be oil productive it will have confirmed the existence of a commercially viable oilfield on block 3/7 and planning of the development of a field could then proceed. Fortunately block 3/7 adjoins the Ninian oilfield already under development, including a pipeline to the Shetland Islands.

Block 211/2

After long delays we have finally obtained approval in principle from the U.K. Government to farmout the block to another company. Documentation is going forward at present and a more formal announcement will be made upon completion of the transaction. Drilling on this block is now expected during the summer of 1977.



TUNISIA (see map No. 4)

Peyto and its subsidiary, Giant Reef Petroleum Limited, participated recently with a 7% interest in the drilling of the Hammamet #2 well, offshore Tunisia. Although many significant indications of hydrocarbons in at least 4 zones were encountered, and oil flowed from one of these at 1790 barrels per day, the well was nevertheless suspended as non-commercial. Cost of drilling this well was \$4 million, plus \$2 million for testing.

To paraphrase a famous statesman — “never before in the history of this company have such high hopes from such noble efforts resulted in so little”.

Additional seismic is being conducted to determine future exploration targets on this 1.2 million acre offshore concession. Subsequent to the completion of this well 50% of the company's interest in the concession was sold.







CALIFORNIA OFFSHORE (see map No. 5)

An interest in five leases totalling 26,640 acres was acquired through participation in a U.S. Federal lease sale. The leases are located in the Santa Barbara Channel and were acquired following an extensive 3,000 mile geophysical program and geological investigation. Attempts are being made to have others evaluate the leases through drilling.

CAMEROON (see map No. 6)

A 7.5% interest was acquired in a 185,280 acre exploration license in Cameroon directly adjoining Nigeria, Africa's second largest oil producer.

GAMBIA (see map No. 7)

Additional seismic work has been completed under a seismic drilling option agreement with another company. The option to drill was not exercised. Attempts are underway to interest others in this 1.5 million acre concession.

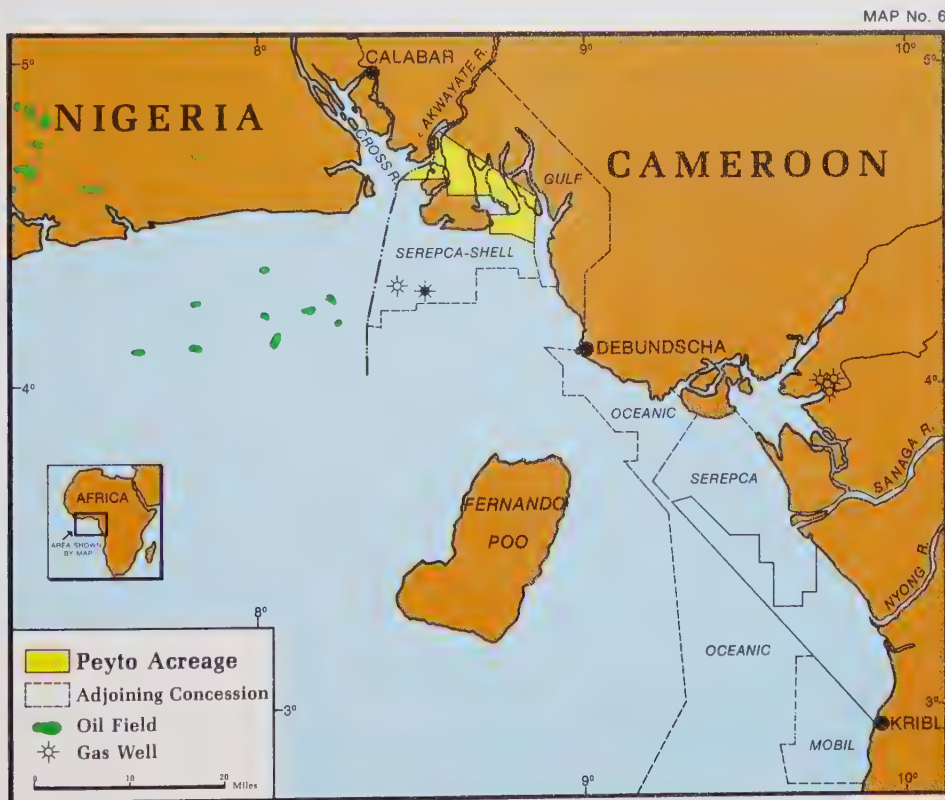
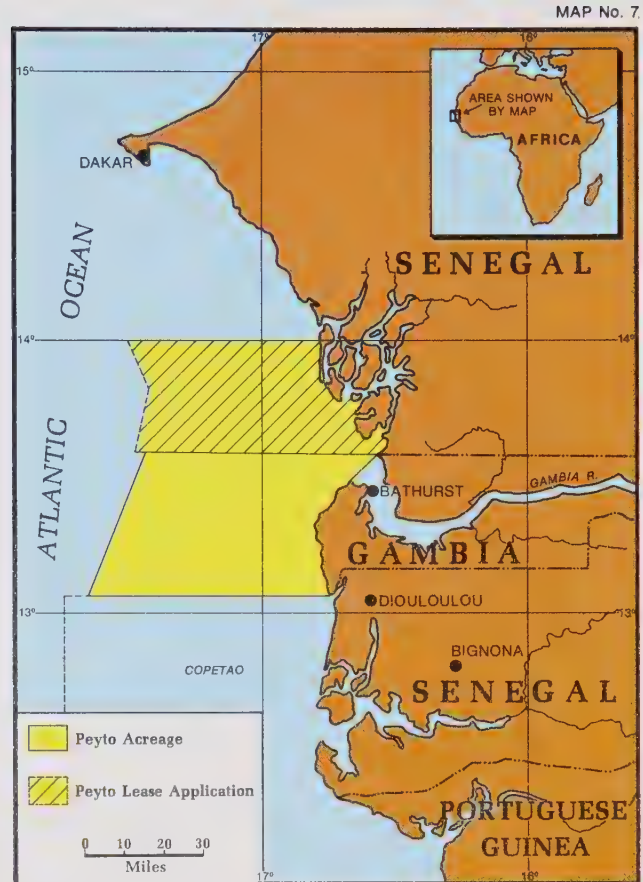
AUSTRALIA

An application, Peyto's interest 10%, has been made for a 3.5 million acre concession offshore Northwest Australia, with the Australian Government. A decision is expected shortly.

Your Board wishes to thank the company's employees for their dedicated efforts and valuable cooperation, and welcomes Mr. Jim Lawrence a senior geologist, to its staff.

Submitted on behalf of the Board of Directors

R. T. M. VANDERHAM,
PRESIDENT



Peyto Oils Ltd. and Subsidiaries

Consolidated Balance Sheet May 31, 1976 (with comparative figures for 1975)

ASSETS

	<u>1976</u>	<u>1975</u>
Current assets:		
Cash	\$ 31,961	79,362
Deposit receipts, including accrued interest	1,007,771	2,383,778
Accounts receivable	644,483	548,514
Total current assets	<u>1,684,215</u>	<u>3,011,654</u>
Property, plant and equipment, at cost		
(Notes 2 and 3):	12,378,039	4,371,424
Less accumulated depletion and depreciation	1,360,460	881,072
	<u>11,017,579</u>	<u>3,490,352</u>
Other assets:		
Investments, at cost (quoted market value		
\$343,696; 1975 — \$428,992)	240,256	453,998
Other investments, at cost less amounts		
written off (no quoted market value)	77,216	22,805
Refundable deposits	14,198	14,247
Incorporation costs	10,039	9,238
	<u>341,709</u>	<u>500,288</u>
	<u>\$13,043,503</u>	<u>7,002,294</u>

LIABILITIES

	<u>1976</u>	<u>1975</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 420,240	548,027
Current portion of bank loan (Note 3)	<u>175,000</u>	<u>100,000</u>
Total current liabilities	<u>595,240</u>	<u>648,027</u>
 Bank loans, net of current portion (Note 3)	 5,830,000	 370,000
 Minority interest in subsidiary company	 167,449	 233,184
 Deferred income taxes	 245,391	 25,003
 Shareholders' equity:		
Capital stock (Note 4):		
Shares without nominal or par value.		
Authorized 6,000,000 shares; issued		
2,833,583 shares; (1975 — 2,831,383 shares)	6,227,477	6,222,010
 Deficit	 22,054	 495,930
	<u>6,205,423</u>	<u>5,726,080</u>
	 <u>\$13,043,503</u>	 <u>7,002,294</u>

Approved on behalf of the Board:

R. T. VANDERHAM, Director

W. WOLODARSKY, Director

See accompanying notes.

Peyto Oils Ltd. and Subsidiaries

Consolidated Statement of Earnings Year ended May 31, 1976 (with comparative figures for 1975)

	<u>1976</u>	<u>1975</u>
Revenue:		
Oil and gas	\$2,270,915	913,757
Interest earned	131,247	238,933
Management and other income	33,224	119,111
Gain on sale of properties and investments	36,264	1,245
	<u>2,471,650</u>	<u>1,273,046</u>
Expenses:		
Operating	590,519	240,549
Lease rentals on non-producing properties	38,152	45,718
General and administrative	219,840	165,680
Interest — bank loan	312,109	66,901
Depletion	347,695	158,201
Depreciation	131,692	87,411
Dryholes and abandonments	221,047	262,587
	<u>1,861,054</u>	<u>1,027,047</u>
Earnings before income taxes, minority interest and extraordinary item	<u>610,596</u>	<u>245,999</u>
Income taxes (Note 5):		
Deferred income taxes	266,354	165,525
Province of Alberta Royalty Credit	130,490	47,721
	<u>135,864</u>	<u>117,804</u>
Net earnings before minority interest and extraordinary item	<u>474,732</u>	<u>128,195</u>
Minority interest in earnings of subsidiary	<u>38,907</u>	<u>57,048</u>
Net earnings before extraordinary item	<u>435,825</u>	<u>71,147</u>
Extraordinary item:		
Reduction of deferred income taxes resulting from application of exploration and development expenses net of minority interest share in the amount of \$7,915; 1975 — \$28,661	<u>38,051</u>	<u>111,861</u>
Net earnings	<u>\$ 473,876</u>	<u>183,008</u>
Net earnings per share (Note 6):		
Before extraordinary item	\$ 0.16	0.02
Extraordinary item	0.01	0.04
	<u>\$ 0.17</u>	<u>0.06</u>

See accompanying notes.

Peyto Oils Ltd. and Subsidiaries

Consolidated Statement of Changes in Financial Position **Year ended May 31, 1976** (with comparative figures for 1975)

	<u>1976</u>	<u>1975</u>
Working capital was provided from:		
Net earnings before extraordinary item	\$ 435,825	71,147
Add items not affecting working capital	<u>969,431</u>	<u>729,527</u>
Working capital provided from operations	1,405,256	800,674
Issue of capital stock	5,467	—
Proceeds from bank loan	5,580,000	—
Proceeds on sale of investments	<u>249,253</u>	<u>13,051</u>
	<u>7,239,976</u>	<u>813,725</u>
Working capital was used for:		
Property, plant and equipment	8,095,710	659,144
Decrease in bank loans	120,000	234,000
Purchase of investments	54,410	—
Purchase of additional shares of a subsidiary	<u>244,508</u>	<u>6,386</u>
	<u>8,514,628</u>	<u>899,530</u>
Decrease in working capital	1,274,652	85,805
Working capital, beginning of year	<u>2,363,627</u>	<u>2,449,432</u>
Working capital, end of year	<u>\$1,088,975</u>	<u>2,363,627</u>

Consolidated Statement of Deficit Year ended May 31, 1976 (with comparative figures for 1975)

	<u>1976</u>	<u>1975</u>
Deficit, beginning of year	\$ 495,930	678,938
Net earnings	<u>473,876</u>	<u>183,008</u>
Deficit, end of year	<u>\$ 22,054</u>	<u>495,930</u>

See accompanying notes.

Notes to the Consolidated Financial Statements May 31, 1976

1. Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of all wholly-owned subsidiary companies and an 82% held subsidiary, Giant Reef Petroleums Limited. During the year the company acquired an additional 16% of the outstanding shares of Giant Reef Petroleums Limited which reduced the minority interest in that subsidiary by \$112,558.

The excess of the purchase price of the shares of Giant Reef Petroleums Limited over the underlying net book values, at dates of acquisition, has, on consolidation, been added to the cost of developed oil and gas properties and is being depleted on the unit of production method.

Petroleum and Natural Gas Properties:

Under the successful efforts method of accounting as used by the company (as opposed to the "full cost" method) all costs relative to exploration for and development of petroleum and natural gas whether productive or non-productive are initially capitalized. The cost of non-producing properties, including development and exploration thereon, less any proceeds on disposal, are charged against earnings in the year of disposal, abandonment or surrender. Costs pertaining to producing properties are depleted on a unit of production method based on estimated proven reserves. Carrying costs on undeveloped properties are charged against earnings in the year incurred.

Depreciation:

Lease and well equipment are being depreciated on the composite unit of production method.

Gas plants are being depreciated on the straight line basis at an annual rate of 5 percent, which rate is estimated to amortize the costs over the useful lives of the plants.

Income taxes:

The company follows the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

2. Property, plant and equipment:

	1976			1975
	Assets at Cost	Accumulated depreciation and depletion	Net	Net
Developed oil and gas properties and equipment thereon	\$ 9,448,708	1,039,228	8,409,480	2,104,583
Gas plants	2,206,719	321,232	1,885,487	891,640
Undeveloped oil, gas and mineral properties	722,612	—	722,612	494,129
	<u>\$12,378,039</u>	<u>1,360,460</u>	<u>11,017,579</u>	<u>3,490,352</u>

3. The bank loans are evidenced by demand promissory notes and are secured by certain petroleum and natural gas properties and accounts receivable. A production bank loan in the amount of \$5,500,000 is repayable out of future production proceeds, and, accordingly, is not expected to require the use of existing working capital; therefore, no portion of this loan has been reclassified to current liabilities. Principal payments on this loan required to meet the next fiscal year's instalments are estimated at \$900,000.

Under the agreed terms of repayment approximately \$175,000 of the remaining bank loans of \$505,000 will be repaid in 1976 and have been included in current liabilities.

4. Capital stock:

During 1976 the company issued 2,200 shares of its capital stock under its stock option plan to employees for an aggregate cash consideration of \$5,467. Also options on 10,000 shares were terminated under the plan.

At May 31, 1976 the company has granted 13,300 shares of its capital stock for employee stock options. The options are exercisable one fifth each year on a cumulative basis at a price of \$2.485 per share, expiring on September 5, 1979 or 60 days after termination of employment whichever comes first.

5. Income taxes:

At May 31, 1976 the following amounts remain to be carried and applied against future taxable income to the maximum amounts permitted annually under the Income Tax Act.

Drilling, exploration and lease acquisition costs to May 6, 1974	<u>\$1,602,605</u>
Cumulative Canadian exploration expenditures	<u>\$ 82,404</u>
Cumulative Canadian development expenditures	<u>\$5,248,196</u>
Undepreciated capital cost	<u>\$2,167,073</u>

6. Net earnings per share:

The net earnings per share is calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not presented as there would be no material change.

7. Anti-Inflation:

The company is subject to the provisions of the Anti-Inflation Act and Regulations governing the amount of dividend payments and as a result the amount of dividends which may be paid is restricted.

8. Remuneration of Directors and Officers:

The aggregate remuneration paid to senior officers (as defined by The Companies Act, Alberta, which term includes the five highest paid employees of the company) during the year amounted to \$90,500 (1975 — \$97,000). No remuneration was paid to directors as such.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peyto Oils Ltd. and subsidiaries as of May 31, 1976 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of May 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
July 28, 1976

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



PEYTO OILS LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

November 30, 1976
 (with comparative figures for 1975)
 (unaudited)

ASSETS:

	1976	1975
Current assets:		
Cash	\$ 5,783	\$ 10,158
Deposit receipts, including accrued interest	1,007,600	2,014,360
Accounts receivable	604,680	291,381
Total current assets	1,618,063	2,315,899
Property, plant and equipment:		
Cost	12,926,837	5,071,017
Less accumulated depletion and depreciation	1,620,200	1,003,401
	11,306,637	4,067,616
Other assets:		
Investments, at cost	311,450	265,509
Refundable deposits	14,198	14,247
Incorporation costs	10,038	9,238
	335,686	288,994
	<u>\$13,260,386</u>	<u>\$6,672,509</u>

LIABILITIES**Current liabilities:**

Accounts payable and accrued liabilities	\$ 203,074	\$ 195,791
Current portion of bank loan ..	190,000	100,000
Total current liabilities	393,074	295,791
Bank loan, net of current portion .	5,894,500	307,000
Minority interest in subsidiary company	186,696	138,467
Deferred income taxes	377,260	100,926

Shareholders' Equity:

Capital stock		
Shares without nominal or par value		
Authorized 6,000,000 shares; issued		
2,833,383 shares (1975 — 2,831,383)	6,227,477	6,222,010
	181,379	(391,685)
Surplus (deficit)	6,408,856	5,830,325
	<u>\$13,260,386</u>	<u>\$6,672,509</u>

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Peyto Oils Limited
 AND SUBSIDIARY COMPANIES

INTERIM REPORT

For Six Months Ended November 30, 1976



DEAR SHAREHOLDER:

Satisfactory increases in both cash flow and earnings occurred due to increased production volumes and prices during the six months period ending November 30, 1976, a period not characteristic of the entire year's performance.

Production averaged 4.684 MMcf per day of gas and 810 barrels per day of oil and gas liquids, despite rather severe curtailments of gas production during the summer months of 1976.

During the period under review the company had various interests in a total of 12 wells drilled, resulting in 6 gaswells, 1 oilwell and 5 dry holes. The most significant of these was a second oil discovery on Block 3/7 offshore the United Kingdom. The well tested oil at the rate of 3,000 barrels per day. The commercial aspect of the two discoveries on Block 3/7 remains in doubt until further drilling hopefully proves up additional reserves. It is expected a third well will be drilled on the southern half of the block during the second quarter of 1977. Your company's U.K. subsidiary has a 3.5% working interest in this third well.

The company has concluded a drilling fund agreement whereby substantial funds become available for the company's greatly expanded exploration program both in Canada and the U.S.A. during 1977 and 1978.

On Block 211/2 in the North Sea a farmout with B.P. Petroleum Development has now been concluded. B.P.'s new semi-submersible "Sea Conquest" is now scheduled to arrive on Block 211/2 after completion of its current driller, in approximately 4 months time.

Exploration on our Tunisia concession will continue in the second quarter with the drilling of a third exploratory well. Your company and its subsidiary hold a 3.5716% interest in the concession.

The company's gas plants at Quirk Creek and Neptune are now operating at maximum capacity, after operating at less than capacity during the summer months. The Neptune plant was completely shut in from May to October due to lack of demand for gas which is exported entirely to the U.S. Pacific Northwest. Two new gas plants under construction, Lacombe and Long Coulee, are scheduled to go on stream in February and June 1977.

Subsequent to this report period the company participated for 38.75% in a new gas discovery details of which are confidential due to available lands in the area.

R. T. Vanderham
President.

PEYTO OILS LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION
For the Six Months Ended November 30, 1976
(with comparative figures for 1975)
(unaudited)

	1976	1975
Working capital was provided from:		
Net earnings before extraordinary item	\$ 203,433	\$ 66,675
Add items not affecting working capital	512,592	330,511
Working capital provided from operations	716,025	397,186
Proceeds on sale of properties and investments	47,952	211,294
Proceeds from bank loan	64,500	—
	828,477	608,480
Working capital was used for:		
Property, plant and equipment	692,463	769,444
Decrease in long-term debt	—	63,000
Purchase of additional shares of a subsidiary	—	119,555
	692,463	951,999
Increase (decrease) in working capital	136,014	(343,519)
Working capital, beginning of period	1,088,975	2,363,627
Working capital, end of period	\$1,224,989	\$2,020,108

PEYTO OILS LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
For the Six Months Ended November 30, 1976
(with comparative figures for 1975)
(unaudited)

	1976	1975
REVENUE:		
Oil and gas	\$1,503,924	\$566,587
Interest earned	46,816	80,888
Management and other income	29,480	6,226
Gain on sale of properties and investments	32,666	—
	1,612,886	653,701
EXPENSES:		
Operating	479,930	143,641
Lease rentals on non-producing properties	13,550	19,766
General and administrative	125,567	100,474
Interest — bank loan	325,473	22,193
Depletion and depreciation	259,740	122,328
Dry holes and abandonments	134,400	69,852
	1,338,660	478,254
Earnings before income taxes, minority interest and extraordinary item	274,226	175,447
Income taxes		
Deferred income taxes	131,869	121,536
Province of Alberta Small Explorers Credit	80,325	29,559
	51,544	91,977
Net earnings before minority interest and extraordinary item	222,682	83,470
Minority interest in earnings of subsidiary	19,249	16,795
Net earnings before extraordinary item	203,433	66,675
Extraordinary item:		
Reduction of deferred income taxes resulting from application of exploration and development expenses and net of minority interest share in the amount of \$8,043	—	• 37,570
Net earnings	\$ 203,433	\$104,245
Net earnings per share:		
Before extraordinary item	\$ 0.07	\$ 0.02
Extraordinary item	—	0.01
	\$ 0.07	\$ 0.03